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INFO RUCPDO/DEPT OF COMMERCE WASHINGTON DC IMMEDIATE
RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE

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TREASURY FOR OASIA
COMMECE FOR EAP/MAC/OKSA

E.O. 12958: N/A
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SUBJECT: THAI CAPITAL MARKETS FALL HEAVILY IN WAKE OF BOT
CAPITAL CONTROLS

REF: BANGKOK 7435

11. (U) On the afternoon of December 18, the Bank of Thailand announced new capital control regulations in an effort to arrest the appreciation of the baht against the US\$. Tear to date, the baht has appreciated about 15 percent.

12. (U) The new measures announce by the BoT require all foreign capital inflows above US\$20,000 to deposit 30 percent of the amount principle amount with the BoT in a non-interest bearing account. Investors who hold their positions for at least one year would have their deposit refunded to them after submitting evidence of the tenor of the investment to their commercial banks. If investors want to repatriate their funds before one year, they would be refunded only two-thirds of the deposit. Transactions completed prior to December 19 are exempted.

13. (U) The reaction of Thai capital markets was swift and painful. The SET Index had declined 15.67 percent as of 3:30 p.m. representing a capital loss of about .5 trillion baht (US\$7 billion). The large cap SET 50 Index (in which most foreign investment is located) was down 16.14 percent. For the first time in Thai stock market history, the stock exchange utilized its circuit breaker mechanism and the closed the market for trading at about 11:00 a.m. when the SET was down 10 percent. it re-opened 30 minutes later and, after attempting to recover, continued its decline. Meanwhile, the baht hit an intraday high of 35.99/US\$ from yesterday's close of around 35.05/US\$. In afternoon trading the level was around 35.6/US\$, a change of around 1.6 percent from the previous day.

14. (SBU) Bankers with whom we spoke were highly critical of the move. They cite the lack of coordination and consultation and the clear lack of understanding of how capital markets would react. "They panicked and went nuclear" said one local banker. Given the foreign inventors are estimated to control about 33 percent of all shares on the stock exchange and supply around 50 percent of daily turnover, the forced absence of new foreign investors and likely departure of existing ones will continue to severely depress capital markets. At 1330 today, BoT officials held a conference call with investment bank officials to explain their action, reportedly saying that the currency markets were not "responding quickly enough" and that they the BoT had to act "for the sake of the real sector."

15. (SBU) Another explanation for the decision to apply capital controls was the sever pressure the new BoT governor was under by exporters whose margins were suffering from the

appreciating baht (see reftel). Similarly Deputy Prime Minister and economic czar Pridiyathorn, who only last week told the press that exporters would simply have to adjust to the new strength in the baht, was rumored to be under pressure to name an additional economic sector minister due to his apparent inability to help exporters. He and Industry Minister Kosit this afternoon both said that they support the move by the BoT.

¶6. (SBU) A senior official with the Thai Chamber of Commerce lamented that the damage to Thai capital markets was hardly worth the small reversal in the baht's appreciation. "They are incompetent" he said. Some are speculating that the BoT will be forced to reverse their decision within the next few weeks. There is some concern about how banks will make a market in the baht when all the foreigners who have sold shares today attempt to convert their baht to US\$ three days from now when the trades settle.
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